

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**



**San Diego County Investment Pool  
California**

(Investment Pool of the County of San Diego)

Issued By  
**Dan McAllister**  
Treasurer-Tax Collector



COUNTY ADMINISTRATION BUILDING

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# INTRODUCTORY SECTION



**Dan McAllister**  
**TREASURER-TAX COLLECTOR**

COUNTY ADMINISTRATION CENTER • 1600 PACIFIC HIGHWAY ROOM 112  
SAN DIEGO, CALIFORNIA 92101-2475 • (619) 531-5225, FAX (619) 595-4605

**Dan Kelley**  
Assistant Treasurer -  
Tax Collector

**Sandra Parker**  
Deputy Treasurer

September 22, 2003

Treasury Pool Oversight Committee  
County of San Diego  
San Diego County Administration Center  
San Diego, California 92101

I am pleased to submit the Comprehensive Annual Financial Report (CAFR) of the San Diego County Investment Pool (the "Pool") for the fiscal year ended June 30, 2003. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the Treasurer's office.

To the best of our knowledge and belief, the enclosed data are accurate in all material respects, and are reported in a manner designed to present fairly the financial position and results of operations of the Pool in conformity with accounting principles generally accepted in the United States of America (GAAP) and audited in accordance with auditing standards generally accepted in the United States of America by a firm of licensed certified public accountants. All disclosures necessary to enable the reader to gain an understanding of the Pool's financial activities have been included.

The San Diego County Investment Pool's financial statements have been audited by KPMG LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of San Diego County Investment Pool for the fiscal year ended June 30, 2003, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the San Diego County Investment Pool's financial statements for the fiscal year ended June 30, 2003, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

GAAP require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The San Diego County Investment Pool's MD&A can be found immediately following the report of the independent auditors.

This CAFR is presented in four major sections:

1. The introductory section, which consists of this letter of transmittal including the profile of the San Diego County Investment Pool, awards and acknowledgements and the organizational structure of the Treasurer's office.
2. The financial section, which provides management's discussion and analysis, the financial statements and notes to the financial statements. This section contains the opinion of the independent auditor, KPMG LLP.
3. The investment section provides an overview of the Treasurer office's investment program. This section contains information relating to the investment activities of the Pool, including a summary of the Pool's investment policies, the Pool's asset allocation, and other portfolio information.
4. The statistical section is the final section of the report and consists of various tables and schedules depicting trends and miscellaneous relevant data concerning investments.

## PROFILE OF THE SAN DIEGO COUNTY INVESTMENT POOL

The San Diego County Investment Pool was created when the State Legislature established the five-member County Board of Supervisors in 1853. It is a local government investment pool with approximately \$3.9 billion in assets as of June 30, 2003. The Pool is headed by the San Diego County Treasurer-Tax Collector, an elected official that is responsible for tax collection, banking, investment, disbursement and accountability of public funds. The San Diego County Investment Pool is managed by the Treasurer's office on behalf of the pool participants. The County portion of the Pool assets as of June 30, 2003 is \$1.5 billion while the external portion that is not part of the County is \$2.4 billion. Depositors in the Pool include both Mandatory and Voluntary Participants located within the County of San Diego (see San Diego County Pool Participants Composition chart, page 29).

Mandatory Participants include the County of San Diego, K-12 school districts, and various special districts and accounts controlled by the County Board of Supervisors. Mandatory Participants are defined as those agencies required by law to deposit their funds with the County Treasurer's office. Mandatory Participants comprise the majority of the Pool's assets, approximately 96% as of June 30, 2003.

Voluntary Participants are those agencies that are not required to place their funds in the County Treasury, and do so only as an investment option. Voluntary Participants include cities, fire districts, and various special districts. As of June 30, 2003, Voluntary Participants accounted for approximately 4% of the Pool.

Community Colleges fall somewhere between Mandatory and Voluntary Participants. While they have the ability to invest funds outside of the County Treasury, they receive banking, checking, and investment services from the County. They are included in the 96% mandatory participants.

In addition to investment management, the Treasurer's office also provides banking services to all Non-Voluntary Participants. These services include, but are not limited to, warrant redemption, Automated Clearing House (ACH) and Federal Wire payments, acceptance of deposits, fund accounting and account reconciliation.

## INVESTMENT POLICIES AND PRACTICES

The primary objectives of the Pool, as set forth in the Treasurer's Investment Policy, in order of importance, are safety, liquidity, and yield. The following goals have been set for 2003/2004:

- ❖ Promote fiscal stability by maintaining AAA rating from Standard & Poors rating service.
- ❖ Improve internal systems and processes by working towards a paperless trade environment.
- ❖ Improve constituent outreach by increasing public awareness of services offered by the Investment Division.
- ❖ Obtain a certificate of achievement for excellence in reporting by the Government Finance Officers Association.

The Treasurer's office prepares an Investment Policy (the "Policy") on an annual basis, to ensure the integrity of the Pool and provide guidelines for its operation. Upon completion of the Policy by the Treasurer's office, it is presented for review to the Treasurer's Oversight Committee, and then to the County Board of Supervisors for their approval at a public meeting.

The maturity distribution of the Pool is limited by the Policy, which places restrictions on the securities that may be purchased. Cash temporarily idle during the year was invested in negotiable certificates of deposit, obligations of the U.S. Treasury, U.S. government agencies, bankers acceptances, commercial paper, corporate bonds, medium term notes, money market mutual funds, Local Agency Investment Fund (LAIF) repurchase agreements and collateralized certificates of deposit. The maturities of the investments range from one day to four years, with an average weighted maturity of 372 days. The average yield on investments was 1.74%. To safeguard the investments, a custodian is employed to safekeep, settle, and accept interest payments on investments held by the Pool. To facilitate internal security and safeguards, the Policy requires an annual audit and the establishment and maintenance of internal controls and procedures.

For the 2002/2003 fiscal year, investments provided a 2.32% apportionment rate, which is the rate used in allocating the net earnings to the participants. The Pool's annualized rate of return over the last three years was 4.27% and 4.63% over the last five years. The fair value of the securities represents 100.4% of the amortized cost of the securities. The book and fair values are used to present the data on investments. The Treasurer's office has implemented a system of internal controls designed to ensure the reliability of reported investment information. The data presented in the Investment Section is in conformance with the presentation standards of the Association for Investment Management and Research (AIMR). Additionally, the Treasurer's office provides monthly and quarterly investment reports to the Board of Supervisors, who then reviews this information as part of their monitoring and oversight function. Please refer to the Investment Section (pages 23-28) of this CAFR for additional information on investments.

## SIGNIFICANT EVENTS FOR THE YEAR

During the fiscal year 2002/2003, significant events included:

The San Diego County Investment Pool remained rated AA Af/S1 by Standard & Poors, a nationally recognized rating agency. This reflects the extremely strong protection the Pool's portfolio investments provide against losses from the credit defaults. The 'S1' volatility rating signifies that the pool possesses low-sensitivity to changing market conditions, given its low-risk profile and conservative investment policies. Rating considerations include:

- ❖ Low exposure to market risk, by virtue of conservative investment policies and practices.
- ❖ Limited use of leverage.
- ❖ High standards for credit quality and diversification.
- ❖ High degree of liquidity resulting from maturity profile and composition of pool participants.
- ❖ Strong ability to forecast ongoing cash requirements.
- ❖ Solid management oversight and operational controls.

The Pool's maturity structure was affected by the turmoil with the State budget crisis. In order to provide ample liquidity to all Pool participants, the duration was kept shorter than normal which affected the yield with record low short-term rates.

The Office began implementation of an updated investment tracking software as well as implementing BondEdge, analytical software.

## AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the San Diego County Investment Pool for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2002. This was the fifth consecutive year that the County of San Diego has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the Treasurer's office must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe this current report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of many individuals in the Treasurer's office. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions and determining responsible stewardship of the funds in the Treasury.

## Requests for Information

This financial report is designed to provide a general overview of the San Diego County Investment Pool's activities for all those with an interest in the Pool's investment activities. Questions concerning any of the information provided in this report or requests for additional financial information, including a complete list of the Pool's holdings, should be addressed to the Office of San Diego County Treasurer-Tax Collector, 1600 Pacific Highway, Room 152, San Diego, California, 92101. Copies of the comprehensive annual financial report will also be available on the internet at [www.sdtreastax.com](http://www.sdtreastax.com).

Respectfully,

A handwritten signature in blue ink, appearing to read "Dan McAllister", is positioned above the printed name.

Dan McAllister  
Treasurer-Tax Collector



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

San Diego County  
Investment Pool, California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

# The Treasury Oversight Committee



**Left to right:**  
**Helen Robbins-Meyer, William Smith, Barbara Underwood, Dan McAllister, Victor Calderon,**  
**Barry Newman (Chairman)**

**Not in picture:**  
**Don Shelton, Scott Patterson, Harry Ehrlich, William J. Kelly, Marlene Kelleher, Andrew White**

# **The Treasury Oversight Committee**

## Members of the Oversight Committee:

**Barry I. Newman, Esquire**  
**Chairman of Oversight Committee, Public Member**

**Dan McAllister**  
**Treasurer Tax Collector, County of San Diego**

**Helen Robbins-Meyer**  
**Assistant Chief Administrative Officer, County of San Diego**

**Don Shelton, Ed.D.**  
**Assistant Superintendent, San Diego County Office of Education**

**Scott Patterson**  
**Chief Financial Officer, San Diego City Schools**

**Harry Ehrlich**  
**President, San Diego Chapter, California Special Districts Association**

**Victor M. Calderon, CPA**  
**Public Member**

**Vacant**  
**Public Member**

## Non-Member Representatives:

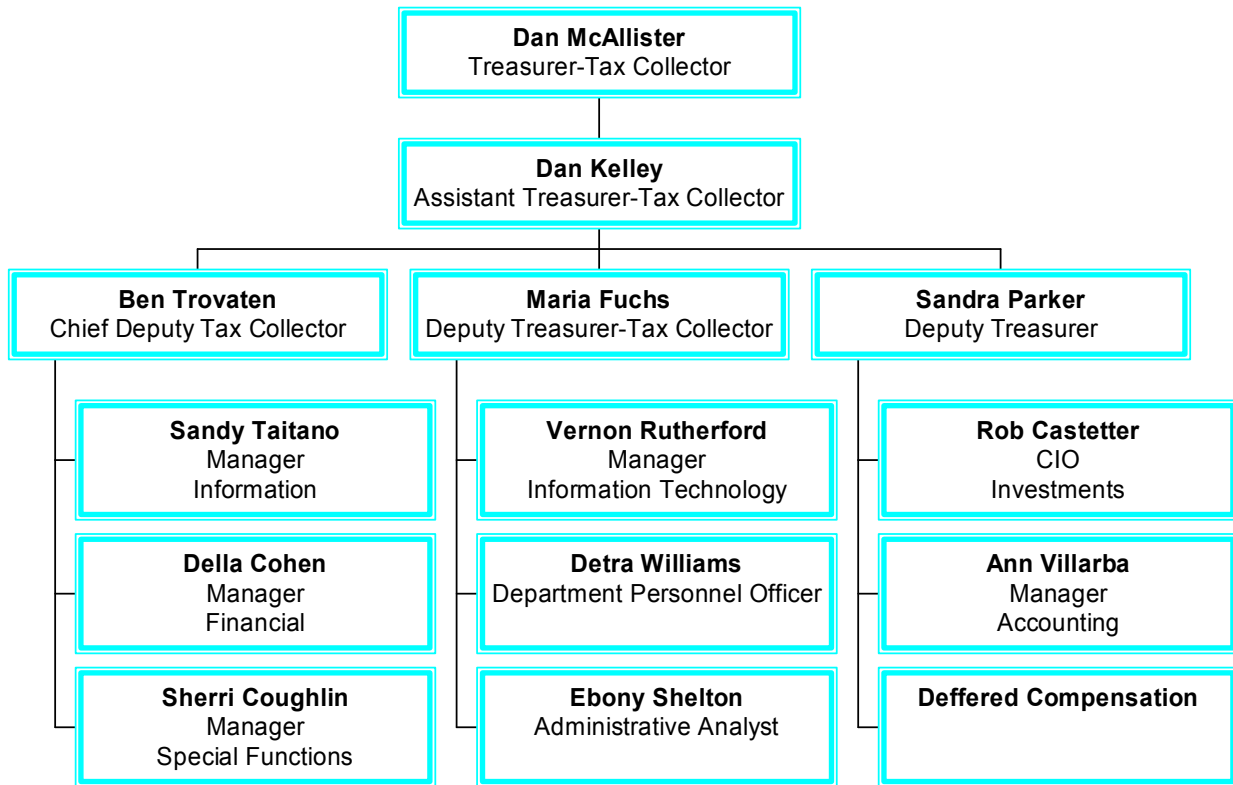
**William J. Kelly**  
**CFO & Auditor/Controller**

**Marlene Kelleher**  
**Financial Services Manager, SANDAG**

**Barbara Underwood**  
**Finance Director, City Of Vista**

**Andrew White**  
**Finance Manager, City of Poway**

# Treasurer-Tax Collector Organization Chart



## Treasury Staff Members

Sandra Parker  
Deputy Treasurer

Ann Villarba  
Manager

Gloria Arre  
Assistant Manager

Rebecca Barrera  
Senior Accountant

Leanne Lee  
Assistant Accountant

Rosella Perez  
Supervising TTC Specialist

Rob Castetter  
Chief Investment Officer

Mark Friedrich  
Investment Officer

Nancy Nuanes  
Principal TTC Specialist

Carol Bradford  
Administrative Secretary II

Jacqueline DeGuire  
Administrative Secretary III

Grace Corpuz  
Senior TTC Specialist

## FINANCIAL SECTION



750 B Street  
San Diego, CA 92101

### **Independent Auditors' Report**

The Honorable Board of Supervisors of the  
County of San Diego, California:

We have audited the accompanying basic financial statements of the San Diego County Investment Pool, County of San Diego, California, as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the management of the San Diego County Investment Pool. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year's comparative information has been derived from the San Diego County Investment Pool's 2001 financial statements and, in our report dated August 9, 2002, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in the notes to the basic financial statements, the financial statements of the San Diego County Investment Pool present only the financial position and changes in financial position of only that portion of activity of the County of San Diego, California, attributable to the San Diego County Investment Pool and do not purport to, and do not, present fairly the financial position of the County of San Diego, California, as of June 30, 2003, and changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Diego County Investment Pool, County of San Diego, California, as of June 30, 2003, and its changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 15 through 17 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The introductory, investment, and statistical sections identified in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the San Diego County Investment Pool, County of San Diego, California. Such additional information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

**KPMG LLP**

September 19, 2003



KPMG LLP, a U.S. limited liability partnership, is the U.S. member of KPMG International, a Swiss cooperative.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the San Diego County Investment Pool, we offer readers of the Pool's financial statements this narrative overview and analysis of the financial activities of the San Diego County Investment Pool for the fiscal year ended June 30, 2003.

### Financial Highlights

- ❖ The assets of the San Diego County Investment Pool exceeded its liabilities at the close of the most recent fiscal year by \$3,858,274,156 (*net assets*).
- ❖ The Pool's total net assets increased by \$606,135,255. This represents a net increase of 25.1% over the last fiscal year 2002, which is largely due to an increase in contributions from pool participants.
- ❖ The interest earnings of the Pool decreased from \$108.9 million for the year ended June 30, 2002 to \$79.5 million for the year ended June 30, 2003.
- ❖ During the year, the Pool distributed \$75.6 million to participants compared to the previous year's distribution of \$105 million.
- ❖ The Pool's expense ratio remained very competitive at 0.11% of the average daily balance for the fiscal year 02-03 and 0.13% for the fiscal year 01-02.
- ❖ The fair value of the portfolio showed an Unrealized Gain of \$9.4 million at June 30, 2003 compared to \$14.1 million at June 30, 2002.
- ❖ During the year, the Pool fair value over the amortized cost of the securities remained at 100.4% for both fiscal years ended June 30, 2002 and June 30, 2003.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the San Diego County Investment Pool's basic financial statements. The Pool's basic financial statements are comprised of two components: 1-a) Statement of Net Assets, 1-b) Statement of Operations, and 1-c) Statement of Changes in Net Assets, and 2) Notes to the Basic Financial Statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The Statement of Net Assets presents information on San Diego County Investment Pool's assets and liabilities, with the difference between the two reported as *net assets*. The net assets held in trust for the Pool participants increased by \$606 million (18.6%) for the year ended June 2003.

## Net Assets held in trust for Pool Participants

A summary of the net assets held in trust for Pool participants is presented below.

| Schedule of Net Assets                         |                  |                  |                   |        |
|--|------------------|------------------|-------------------|--------|
|  | 2003             | 2002             | Increase/Decrease |        |
|  |                  |                  | Amount            | %      |
| Assets   |                  |                  |                   |        |
| Investments at Fair Value                      | \$ 3,827,018,521 | \$ 3,193,962,101 | \$ 633,056,420    | 19.8%  |
| Cash Receivable                                | 49,066,283       | 83,138,512       | (34,072,229)      | -41.0% |
| Total Assets                                   | 3,876,084,804    | 3,277,100,613    | 598,984,191       | 18.3%  |
| Total Liabilities                              |                  |                  |                   |        |
| Distributions Payable and Accrued Expense      | (17,810,648)     | (24,961,712)     | 7,151,064         | -28.6% |
| Net Assets held in trust for Pool participants | \$ 3,858,274,156 | \$ 3,252,138,901 | \$ 606,135,255    | 18.6%  |

The Statement of Operations presents information on interest income, net increase in fair value of investments and administrative expenses. Unrealized gains or losses of securities are determined by taking the difference between amortized cost and the fair value of investments.

The Statement of Changes in Net Assets presents information showing how the Pool's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

## Changes in Net Assets

A summary of the changes in net assets is presented below:

| Schedule of Changes in Net Assets |                   |                   |                   |        |
|-----------------------------------|-------------------|-------------------|-------------------|--------|
|                                   | 2003              | 2002              | Increase/Decrease |        |
|                                   |                   |                   | Amount            | %      |
| Additions                         |                   |                   |                   |        |
| Contributions                     | \$ 36,207,523,331 | \$ 35,031,870,944 | \$ 1,175,652,387  | 3.4%   |
| Investment income                 | 74,769,557        | 113,498,439       | (38,728,882)      | -34.1% |
| Total additions                   | 36,282,292,888    | 35,145,369,383    | 1,136,923,505     | 3.2%   |
| Deductions                        |                   |                   |                   |        |
| Withdrawals                       | 35,596,672,002    | 34,552,164,268    | 1,044,507,734     | 3.0%   |
| Interest distributions            | 75,555,211        | 104,956,793       | (29,401,582)      | -28.0% |
| Administrative expenses           | 3,930,420         | 3,897,890         | 32,530            | 0.8%   |
| Total deductions                  | 35,676,157,633    | 34,661,018,951    | 1,015,138,682     | 2.9%   |
| Net increase in net assets        | \$ 606,135,255    | \$ 484,350,432    | \$ 121,784,823    | 25.1%  |

While contributions increased by 3.4% over the previous year, investment income decreased by \$38.7 million (34.1%) for the fiscal year ending June 30, 2003, due to the difficult financial markets.

The investment pool is managed for the sole benefit of the participants. All income is distributed quarterly after deducting administrative costs. Withdrawals increased by 3% over the previous year. Distributions to participants decreased by \$29.4 million (28%) due to reduced earnings in the Pool. Administrative expenses increased by \$32,530 (.8%) over the previous year. The



overall net increase in net assets was \$606 million for the fiscal year ended June 30, 2003 and \$484 million for June 30, 2002.

The State of California budget crisis, record low interest rates compounded by the State's recession, global terrorist's attacks, corporate accounting scandals and the Iraq war contributed to a reduced earnings rate on the Pool.

## STATEMENT A

**SAN DIEGO COUNTY INVESTMENT POOL**  
**STATEMENT OF NET ASSETS**  
June 30, 2003

(With comparative totals for June 30, 2002)

| <b>ASSETS</b>                                 | <b>2003</b>             | <b>2002</b>             |
|---|-------------------------|-------------------------|
| <b>Investments at Fair Value:</b>             |                         |                         |
| <b>U.S. government obligations:</b>           |                         |                         |
| Federal Home Loan Mortgage Corp. Notes        | \$ 530,000,880          | \$ 308,333,150          |
| Federal Home Loan Bank Notes                  | 324,009,058             | 172,474,672             |
| Federal National Mortgage Assoc. Notes        | 657,428,942             | 306,461,500             |
| Federal Farm Credit Bank Notes                | 25,209,460              | 25,023,500              |
| Student Loan Marketing Assoc. Notes           | 50,043,800              | 50,068,000              |
| <b>Short-term notes:</b>                      |                         |                         |
| Commercial paper                              | 1,209,651,596           | 1,080,635,814           |
| Corporate medium-term notes                   | 61,299,885              | -                       |
| <b>Repurchase agreement collateralized by</b> |                         |                         |
| <b>money market securities</b>                | 325,000,000             | 450,000,000             |
| <b>Negotiable certificates of deposit</b>     | 325,274,900             | 540,965,465             |
| <b>Money market securities</b>                | 319,100,000             | 260,000,000             |
|   | <b>3,827,018,521</b>    | <b>3,193,962,101</b>    |
| <b>Other Assets:</b>                          |                         |                         |
| Cash on hand and in banks                     | 32,332,193              | 62,072,585              |
| Receivables and other                         | 16,734,090              | 21,065,927              |
| <b>Total assets</b>                           | <b>3,876,084,804</b>    | <b>3,277,100,613</b>    |
| <b>LIABILITIES</b>                            |                         |                         |
| Distributions payable                         | 16,871,393              | 23,961,906              |
| Accrued expenses                              | 939,255                 | 999,806                 |
| <b>Total liabilities</b>                      | <b>17,810,648</b>       | <b>24,961,712</b>       |
| <b>NET ASSETS</b>                             | <b>\$ 3,858,274,156</b> | <b>\$ 3,252,138,901</b> |

See notes to financial statements

## STATEMENT B

## SAN DIEGO COUNTY INVESTMENT POOL

## STATEMENT OF OPERATIONS

For the year ended June 30, 2003

(With comparative totals for the year ended June 30, 2002)

|   | 2003                 | 2002                  |
|---|----------------------|-----------------------|
| <b>Investment Income:</b>                                   |                      |                       |
| Interest income   | \$ 79,485,631        | \$ 108,854,683        |
| Net decrease in fair value of investments                   | (4,716,074)          | 4,643,756             |
| Total investment income                                     | 74,769,557           | 113,498,439           |
| Expenses - administrative costs                             | 3,930,420            | 3,897,890             |
| <b>Net increase in net assets resulting from operations</b> | <b>\$ 70,839,137</b> | <b>\$ 109,600,549</b> |

## STATEMENT C

## SAN DIEGO COUNTY INVESTMENT POOL

## STATEMENT OF CHANGES IN NET ASSETS

For the year ended June 30, 2003

(With comparative totals for the year ended June 30, 2002)

|   | 2003                    | 2002                    |
|---|-------------------------|-------------------------|
| <b>Net increase in net assets resulting from operations</b>           | <b>\$ 70,839,137</b>    | <b>\$ 109,600,549</b>   |
| <b>Distributions to participants - distributions paid and payable</b> | <b>(75,555,211)</b>     | <b>(104,956,793)</b>    |
| Net increase after distributions                                      | (4,716,074)             | 4,643,756               |
| <b>Capital transactions:</b>  |                         |                         |
| Contributions   | 36,207,523,331          | 35,031,870,944          |
| Withdrawals   | (35,596,672,002)        | (34,552,164,268)        |
| Net increase resulting from capital transactions                      | 610,851,329             | 479,706,676             |
| Total increase in net assets  | 606,135,255             | 484,350,432             |
| <b>Net assets, beginning of year</b>                                  | <b>3,252,138,901</b>    | <b>2,767,788,469</b>    |
| <b>Net assets, end of year</b>  | <b>\$ 3,858,274,156</b> | <b>\$ 3,252,138,901</b> |

See notes to financial statements

**San Diego County Investment Pool**  
**Notes to the Basic Financial Statements**  
**For the year ended June 30, 2003**

**Summary of Significant Accounting Policies**

**The Financial Reporting Entity**

The San Diego County Investment Pool (the Pool) is a local government investment pool with approximately \$3.9 billion in assets as of June 30, 2003. It is headed by the Treasurer-Tax Collector, an elective office that is responsible for tax collection, banking, investment, disbursement and accountability of public funds. The San Diego County Investment Pool is managed by the County Treasurer's Office on behalf of the Pool participants which include the County, local school districts, local community colleges and other districts and agencies. The local school districts are required by State statutes to deposit their funds with the County of San Diego. "Mandatory" participants in the Pool comprise the majority of the pool's assets, approximately 96%. The State of California gives the Board of Supervisors the ability to delegate the investment authority to the County Treasurer's Office in accordance with Section 53607 of the California Government code. The Pool's investment objectives are to safeguard principal, meet the liquidity needs of the participants, and return an acceptable yield within the parameters of prudent risk management.

Pursuant to Sections 27130-27137 of the California Government Code, the Board of Supervisors has established an oversight committee that monitors and reviews the Pool's investment policy. The oversight committee consists of members appointed from the districts or offices that they represent, and up to five members of the public, having expertise in, or an academic background in public finance. This committee requires a financial audit to be conducted annually on a fiscal year basis which includes limited tests of compliance with laws and regulations. The San Diego County Investment Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company.

**Measurement Focus, basis of accounting and financial statement presentation**

The accompanying financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Earnings on investments are recognized as revenue in the period in which they are earned and administrative costs are recognized as expense when incurred, regardless of the timing of related cash flows. Pool participants' cash balances and withdrawals are based on cost while investments are reported at fair value.

**Assets, liabilities and net assets**

**1. Deposits:** At year-end the bank balance of the Pool's deposits with various financial institutions totaled \$32,263,542 consisting of \$31,871,542 in demand deposits and \$392,000 in collateralized deposits. Of these amounts, \$692,000 was covered by federal deposit insurance and \$31,571,542 was uncollateralized. However, state statutes require that depositories holding public funds on deposit maintain collateral in the form of a pool of securities with the agent of

the depository having a market value of at least 10% in excess of the total amount of all public funds on deposit.

**2. Investments:** The San Diego County Investment Pool operates under the prudent person standard. State statutes, specifically California Government Code Sections 27000.1-27000.5, 27130-27137, and 53600-53686, authorize the Treasurer to invest funds in permissible types of investment or financial instruments. These include government obligation securities, bankers' acceptances, commercial paper, medium-term notes, pass-through securities, negotiable certificates of deposit, repurchase and reverse repurchase agreements, money market mutual funds, Local Agency Investment Fund and collateralized certificates of deposit.

The Pool's primary objective is to safeguard the principal of the funds. The secondary objective is to meet the liquidity needs of the participants. The third objective is to achieve an investment return on the funds within the parameters of prudent risk management.

Investments in the pooled funds are stated at fair value. Securities which are traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The fair value of investments is determined monthly and is provided by the custodian bank. All purchases of investments are accounted for on a settlement date basis. Unrealized gains or losses of securities are determined by taking the difference between amortized cost and the fair value of investments. Securities in the aggregate amount of \$928,878,000 were sold during the year with net gain of \$999,367. The Pool is authorized to have leverage exposure through the use of Reverse Repurchase Agreements (RRP) and Securities Lending. The maximum exposure is 20% of the total portfolio. However, there were no RRP or securities lending transactions during the fiscal year.

Investments are categorized below to give an indication of the level of risk at year-end.

- ❖ Category 1 – Includes investments that are insured or registered or for which the securities are held by the County Pool or its agent in the Pool's name.
- ❖ Category 2 – Includes uninsured and unregistered investments for which the securities are held by the counter-party's trust department or agent in the Pool's name.
- ❖ Category 3 – Includes uninsured and unregistered investments for which the securities are held by the counter-party or by its trust department or agent, but not in the Pool's name.

The entire portfolio as of June 30, 2003 is under Category 1 except for Open-end Institutional Money Market Funds, which do not fall under any of the above categories as the investment in these funds are not evidenced by specific securities.

**San Diego County Investment Pool**  
**Fair Value**  
6/30/2003

Except for the Open-end Institutional Money Market funds, the entire portfolio is under Category 1:

|  | Rate<br>Range % | Maturity Date<br>Range | Par Value<br>(000) | Amortized Cost<br>(000) | Fair Value<br>(000) |
|--|-----------------|------------------------|--------------------|-------------------------|---------------------|
| U.S. Government Obligations            |                 |                        |                    |                         |                     |
| Federal Home Loan Bank                 | 1.25 - 3.75     | 5/04 - 12/06           | \$322,000          | \$322,315               | \$324,009           |
| Federal Home Loan Mortgage Corp.*      | 1.79 - 4.50     | 7/04 - 12/06           | 525,150            | 526,544                 | 530,001             |
| Federal Nat'l Mortgage Assn.           | 2.00 - 6.50     | 8/04 - 10/06           | 650,530            | 653,581                 | 657,429             |
| Federal Farm Credit Bank               | 2.05            | 10/05                  | 25,000             | 25,000                  | 25,209              |
| Student Loan Marketing Assn.           | 2.13            | 4/05                   | 50,000             | 50,000                  | 50,044              |
| Medium Term Notes                      | 1.11 - 5.70     | 1/04 - 2/04            | 60,000             | 61,324                  | 61,300              |
| Short Term Notes                       |                 |                        |                    |                         |                     |
| Commercial Paper                       | 1.01 - 1.33     | 7/03 - 11/03           | 1,211,501          | 1,209,744               | 1,209,651           |
| Repurchase Agreements**                | 1.35 - 1.45     | 7/03                   | 325,000            | 325,000                 | 325,000             |
| Negotiable Certificates of Deposit     | 1.25 - 2.31     | 07/03 - 02/05          | 325,000            | 325,000                 | 325,275             |
| Total Categorized Securities           |                 |                        | 3,494,181          | 3,498,508               | 3,507,918           |
| Open-end Inst'l. Money Market Funds*** | 1.07 - 1.11     | 7/03                   | 319,100            | 319,100                 | 319,100             |
| <b>Total Investments</b>               |                 |                        | <b>\$3,813,281</b> | <b>\$3,817,608</b>      | <b>\$3,827,018</b>  |

\* The County Treasurer's office is aware of litigations against FHLMC. At this time, the County Treasurer's office intends to hold the current positions until maturity.

\*\* Repurchase Agreements and Institutional Money Market funds are carried at portfolio book value (carrying cost).

\*\*\* Open-end Institutional Money Market funds are not categorized because they do not fall under any of the categories of credit risk as the investment in these funds is not evidenced by specific securities.

## Comparative Data

Certain reclassifications have been made to the prior year's comparative financial data to conform to the current year's presentation.

## 3. Receivables and Payables

Receivables consist of interest accrued on investments and amortization of investments. The payables represent the interest for the last quarter that will be distributed to pool participants. Accrued expenses represent the administrative fees for the last quarter of the fiscal year 2002-2003.

## 4. Interest Apportionment

Earnings on investments are distributed to Pool participants and are calculated using the accrual basis of accounting. Section 27013 of the California Government Code authorizes the Treasurer's office and Auditor & Controller's office to deduct administrative fees related to investments. The net realized earnings on investments are apportioned to the Pool participants quarterly, based on their daily average balances. During the fiscal year ended June 30, 2003, the

Pool distributed \$75.6 million of investment earnings compared to the previous year's distribution of \$105 million.

## 5. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

## 6. Portfolio Pool Participant Composition

The County portion of the Investment Pool assets as of June 30, 2003 is \$1,531.8 million while the external portion that is not part of the County is \$2,344.3 million. As of June 30, 2003 and 2002, the pool participants by percentage of assets consist of:

| Participants                           | 2003   | 2002   |
|--|--------|--------|
| County Funds                           | 28.4%  | 31.7%  |
| Unapportioned Tax/Interest Funds/Other | 12.4%  | 13.9%  |
| K-12 Schools                           | 47.7%  | 47.6%  |
| Community Colleges                     | 7.5%   | 4.4%   |
| Voluntary Depositors                   | 4.0%   | 2.4%   |
| Total                                  | 100.0% | 100.0% |

## INVESTMENT SECTION



## **Administrative Overview**

The Pool was created when the State Legislature established the five-member County Board of Supervisors, approximately in 1853. For fiscal year 2002/2003 the Pooled Money Fund has accomplished the following:

- ❖ During the year, the Pool structure has remained in compliance with the maturity policy which requires 50% of securities to mature under one year, 25% to mature in 90 days, 25% to mature from 91-365 days; as of June 30, 2003 the Pool has 61% maturing less than one year.
- ❖ The Pool has had an increase in weighted average days to maturity from 284 days at June 30, 2002 to 372 days at June 30, 2003.
- ❖ The unrealized gain decreased from \$14.1 million at June 30, 2002 to \$9.4 million at June 30, 2003.
- ❖ The yield to maturity of the Investment Pool decreased from 2.82% on June 30, 2002 to 1.74% on June 30, 2003.
- ❖ The Pool's expense ratio remained very competitive at 0.11% of the average daily balance for the fiscal year 2002/2003 and 0.13% for 2001/2002.
- ❖ The Pool received a 'AAAf/S1' rating by Standard & Poor's, a nationally recognized rating agency.

## **Outline of Investment Policy**

The Pooled Money Fund is managed in accordance with prudent money management principles and California State law Sections 27000.1 – 27000.5, 27130 – 27137, and 53600 – 53686.

The objectives of the Pooled Money Fund in order of importance are:

1. The primary objective shall be to safeguard the principal of the funds under the control of the Treasurer's Office.
2. The secondary objective shall be to meet the liquidity needs of participants.
3. The third objective shall be to achieve an investment return on the funds under control of the Treasurer within the parameters of prudent risk management.

On an annual basis, the Treasurer's Oversight Committee (TOC) reviews and approves the Treasurer's Pooled Money Fund Investment Policy. Once the TOC has recommended approval, the Board of Supervisors reviews and adopts the Investment Policy in a public forum. The Policy focuses on risk management by setting limits on principal exposure by type of security, by issuer of debt, by minimum credit ratings; limits on liquidity by placing return as the least

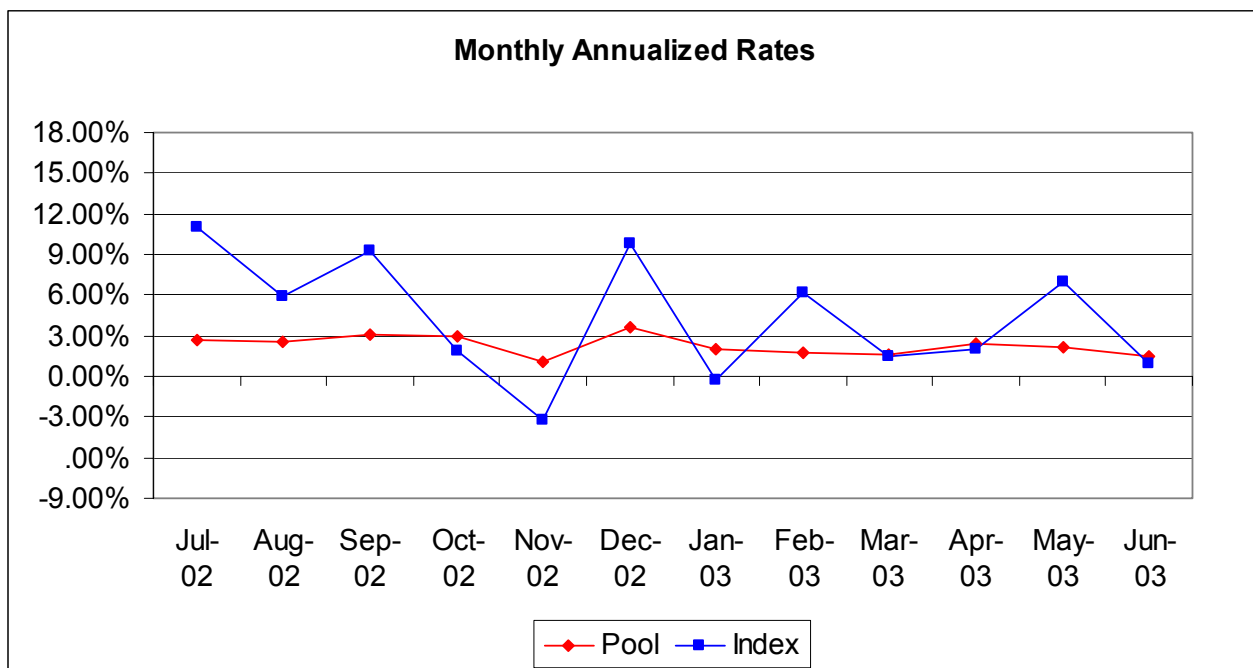
important compared to safety and liquidity. The Policy includes a detailed section on terms and conditions for Voluntary Participants' deposits and withdrawal of funds from the Pool. All investment transactions are handled by the internal Investment Officers. There are no outside investment advisors.

## Investment Results

The Pooled Money Fund outperformed the custom index in 5 out of 12 months during the year. The average monthly annualized market value return for the fund during the fiscal year 2002/2003 was at 2.28% while the average monthly annualized market value return for the index was 4.33% The custom index is made up of the following components:

| <u>Investment Type</u> | <u>Maturity Range</u> | <u>Allocation</u> |
|------------------------|-----------------------|-------------------|
| • Treasuries           | 1 – 3 year            | 24%               |
| • Treasuries           | 3 – 5 year            | 24%               |
| • T-Bills              | 0 – 3 mos             | 12.50%            |
| • T-Bills              | 3 – 6 mos             | 9%                |
| • T-Bills              | 6 – 9 mos             | 9%                |
| • T-Bills              | 12 mos                | 9%                |
| • US Libor             | 1 mo                  | 6.25%             |
| • US Libor             | 3 mos                 | 6.25%             |

A chart of the Pooled Money Fund versus custom index is shown below.



## Performance Returns

As of June 30, 2003

| INVESTMENT TYPE                    | Reported in Percentages |             |             |
|------------------------------------|-------------------------|-------------|-------------|
|                                    | 1Year                   | 3 Years     | 5 Years     |
| <b>TOTAL PLAN</b>                  | <b>2.38</b>             | <b>4.25</b> | <b>4.88</b> |
| <b>CUSTOM INDEX</b>                | <b>4.41</b>             | <b>6.17</b> | <b>5.70</b> |
| U. S. GOVERNMENT OBLIGATIONS       |                         |             |             |
| FHLMC QUARTERLY                    | 1.79                    | 1.79        | 1.79        |
| FNMA DISCOUNT NOTES                | 1.22                    | 1.22        | 4.66        |
| FHLB DISCOUNT NOTES                | 1.22                    | 1.22        | 1.22        |
| FFCB                               | 2.64                    | 3.35        | 4.13        |
| FHLB                               | 3.74                    | 5.68        | 5.46        |
| FNMA                               | 3.85                    | 4.86        | 4.94        |
| FHLMC                              | 3.62                    | 4.56        | 4.79        |
| SLMA                               | 2.47                    | 2.33        | 2.95        |
| MEDIUM TERM NOTES                  |                         |             |             |
| MEDIUM TERM NOTES                  | 6.54                    | 6.57        | 5.71        |
| MEDIUM TERM NOTES ACT/360          | 1.31                    | 4.40        | 5.14        |
| SHORT-TERM NOTES                   |                         |             |             |
| COMMERCIAL PAPER                   | 1.58                    | 3.19        | 3.67        |
| REPURCHASE AGREEMENTS              | 1.52                    | 3.08        | 3.84        |
| NEGOTIABLE CERTIFICATES OF DEPOSIT | 2.06                    | 3.18        | 3.90        |
| OPEN-END INST'L MONEY MARKET FUNDS | 1.39                    | 2.43        | 2.76        |

The above calculations were prepared using time-weighted rates of return in accordance with AIMR's Performance Presentation Standards.

## Income Allocation

The interest earned by each participant is proportionate to the average daily balance of the local agency. Prior to distribution, expenses incurred by the County are deducted from the earnings of the Pooled Money Fund. The Pool's expense ratio for 2002/2003 was 0.11% of the average daily balance. The apportionment rate is set approximately two weeks after each calendar quarter end. The earnings are usually credited in two increments, with the first distribution occurring during the second month after quarter-end. The second distribution will be made the following month, which is the last month of the new quarter. The incremental amounts that can be distributed are based on the balance in the Apportionment Fund. Generally sixty percent (60%) or more of the quarterly earnings will be distributed during the first apportionment and the balance will be distributed during the second apportionment. Apportionments are not paid out by warrants; all earnings are reinvested in the Pool.

## **Economic Environment**

Economic trends in 2002/03 were better than expectations at the opening of the year. A 2.7% bounce in the final quarter of the year began a choppy recovery that continued throughout 2002, ending the year at an estimated 3.0% growth rate. That would be in line with the past 15-year average and would represent the highest annual economic growth since 1999's 4.3% rate. The choppy and modest nature of the recovery is consistent with the equally modest recession.

Consumers once again dominated the economic story of the past year. Falling interest rates, low inflation and stable income growth offset a murky employment market to support consumer spending and investment through the year. Interest rates on 30-year fixed rate mortgages continued to fall from a high of 7.4% at the beginning of the year to under 6.0%. This prompted strong refinancing activity, raising consumer cash flows by lowering monthly mortgage payments.

Sharply lower mortgage rates not only boosted refinancing activity but also pushed housing sales to new record levels during the year. New home sales experienced four straight monthly readings above 1.0 million annual units in November. This was the first such event ever recorded, and sales rose 14% year-over-year. Existing home sales managed a 6.9% year to date growth rate, the highest since 1998. With mortgage rates at 40-year lows, it is likely that the housing market will be able to maintain a stable sales environment in the coming year.

In addition to housing, lower interest rates also sustained general retail sales. Excluding autos, sales were up 5.0% year-over-year in November, led by housing related sectors such as furniture and building materials. Automobile sales were down approximately 4.0% year to date in November, off of highly inflated prior year sales driven by financing incentives. Expectations for Christmas sales began high on the starting block but quickly lost momentum as traffic slowed and retailers resorted to heavy discounting to move product off the shelves.

A subdued inflationary environment has assisted consumers by keeping competitive pricing under pressure. Consumer prices rose 2.2% over the prior twelve months ending in November. While that is higher than the 1.6% rate at the close of 2001, it remains below the five-year average. Core consumer prices, less food and energy, have decelerated all year to end November at a 2.0% annual rate. Producer input prices have risen just 0.9% over the same period, keeping cost pressures under control at the manufacturing level. Low inflation has also allowed the Federal Reserve to accelerate its accommodative monetary policy late in the year. Inflation overall has turned modestly higher from extremely low levels at midyear and has muted earlier concerns over deflation. Commodity prices turned higher, as have intermediate and crude goods. However, these increases are manageable, coming from extremely low levels following September 11. Rising commodity prices are derived from strengthening demand, a positive indicator for industrial activity.

The relief rally in the equity markets that began just prior to the launch of the Iraq offensive continued throughout the second quarter of the year as investor sentiment gradually improved. First quarter corporate earnings provided positive surprises and boosted forward expectations. Both monetary and fiscal stimulus increased as the Fed cut rates to their lowest level since 1958 and as President Bush's tax proposal became law, although at a diluted level. While expectations for improving economic and earnings results improved, actual economic trends continued at a

sluggish pace throughout the June quarter. Consumer sectors of the economy maintained modest trend-line growth, led by housing related markets. However, corporate spending remained elusive and sentiment among the industrial sectors has not experienced the same drive as consumer attitudes.

Despite the lack of real positive economic momentum, markets responded to a renewed conviction that high liquidity levels and massive monetary and fiscal stimulus can put the economy back on track for sustainable non-inflationary growth. The Standard and Poor's 500 Index realized its strongest quarterly return since 1998 at 15.40%, bringing the year to date return to 11.77%. Market leadership continued to reside in the most cyclical sectors, such as technology, consumer discretionary and credit sensitive financials. Extremely oversold telecom and utility sectors experienced strong rebounds while more defensive groups lagged the general market but still managed impressive quarterly returns.

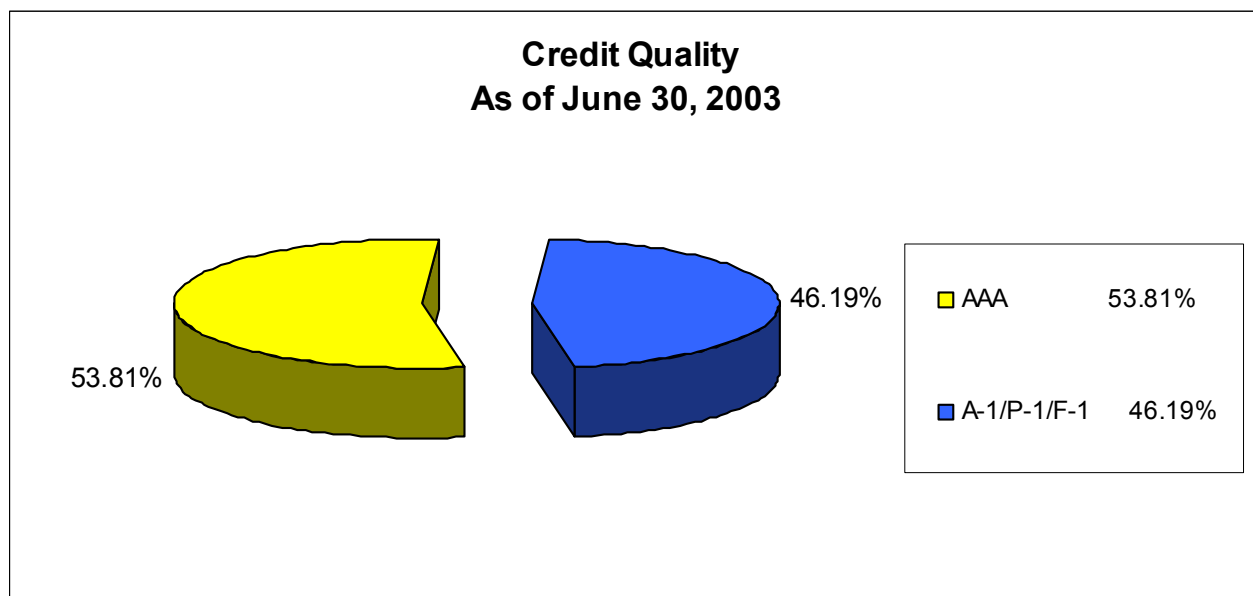
Bond markets also staged strong quarterly performance records, although trailing behind equities. Continued strong bond performance despite a strong equity market was a result of increasing evidence during the quarter of an additional Federal Reserve rate cut that was culminated at the Federal Reserve's June 25th meeting. In addition, interest rate spreads among government agency, investment grade corporate, high yield and mortgage back securities continued to narrow in anticipation of improving credit fundamentals. Longer maturity issues outperformed the short end of the yield curve and lower credit quality outperformed the risk free Treasury market. The Lehman Brothers Intermediate and Long Term Corporate Bond Indices returned 4.29% and 7.61% in June quarter compared to the Lehman Brothers Intermediate and Long Term Treasury Index returns of 1.59% and 5.07%.

The key to growth into 2004 will be sustainable demand and corporate management response through capital expenditures. Consumers have exhausted much of their spending capacity in the way of booming housing and auto sales. While income growth and improving sentiment can continue to support spending levels, accelerated consumer activity will be difficult to come by. Corporate management comments remain subdued, as most bottom line improvement has come from the cost side of the income statement. Upgrades and obsolescence will boost capital investment going forward, as has already been experienced in technology spending. However, expansion of the capital base seems far in the distance until economic momentum and perhaps tax incentives can entice industry to boost investment programs.

## Risk Profile

The three main risk factors for the Pooled Money Fund are credit, liquidity and interest rate exposure.

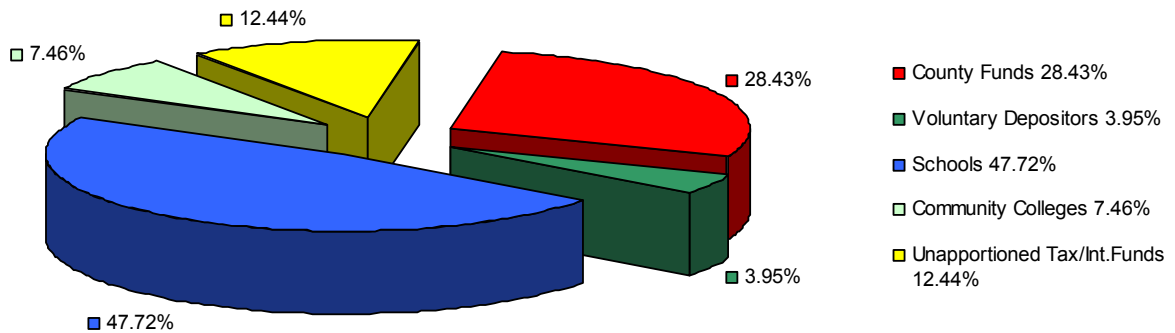
The credit limits of the investments held by the Pool meet and in many cases exceed the requirements of the California Government Code. For example, the Pool is limited to buying corporate and medium-term notes of issuers rated AAA or better when the maturity is beyond one year, whereas the Code allows for buying corporate and medium-term notes of issuers rated A or better. The following pie chart displays the percentage breakdown of credit exposure for the Pool.



## San Diego County Investment Pool Participants - June 30, 2003

| Participant                            | Percentage Ownership | Participant  | Percentage Ownership |
|--|----------------------|--|----------------------|
| County                                 | 28.43%               | Retirement   |                      |
| Unapportioned Tax/Interest Funds/Other | 12.44%               | Cities   |                      |
| Schools (K thru 12)                    |                      | Encinitas  |                      |
| Alpine Union                           |                      | La Mesa  |                      |
| Bonsall Union                          |                      | Independent Agencies                               |                      |
| Borrego Springs Unified                |                      | Alpine Fire Protection                             |                      |
| Cajon Valley Union                     |                      | Bonita Sunnyside Fire Protection                   |                      |
| Cardiff                                |                      | Borrego Springs Fire Protection                    |                      |
| Carlsbad Unified                       |                      | Deer Springs Fire Protection                       |                      |
| Chula Vista Elementary                 |                      | East County Fire Protection                        |                      |
| Coronado Unified                       |                      | Fallbrook Public Utility                           |                      |
| Dehesa                                 |                      | Fallbrook Sanitation                               |                      |
| Del Mar Union                          |                      | Fire Agency Self Insurance System (PASIS)          |                      |
| Encinitas Union                        |                      | Julian-Cuyamaca Fire Protection                    |                      |
| Escondido Union                        |                      | Lake Cuyamaca Recreation & Park                    |                      |
| Escondido Union High                   |                      | Lakeside Fire                                      |                      |
| Fallbrook Union Elementary             |                      | Lower Sweetwater Fire Protection                   |                      |
| Fallbrook Union High                   |                      | Majestic Pines Community Services District         |                      |
| Grossmont Union High                   |                      | Metropolitan Transit District Board                |                      |
| Jamul-Dulzura Union                    |                      | Metropolitan Transit Service                       |                      |
| Julian Union                           |                      | Mission Resource Conservation                      |                      |
| Julian Union High                      |                      | North County Cemetery District                     |                      |
| La Mesa- Spring Valley                 |                      | North County Cemetery Perpetual                    |                      |
| Lakeside Union                         |                      | North County Cemetery                              |                      |
| Lemon Grove                            |                      | North County Dispatch                              |                      |
| Mountain Empire Unified                |                      | North County Fire Protection                       |                      |
| National                               |                      | Otay Water District                                |                      |
| Oceanside Unified                      |                      | Palomar Resource Conservation                      |                      |
| Pauma                                  |                      | Pine Valley Fire Protection                        |                      |
| Poway Unified                          |                      | Pomerado Cemetery Perpetual                        |                      |
| Ramona Unified                         |                      | Pomerado Cemetery District                         |                      |
| Rancho Santa Fe                        |                      | Ramona Cemetery District                           |                      |
| San Diego Unified                      |                      | Ramona Cemetery Perpetual                          |                      |
| San Dieguito Union High                |                      | Rancho Santa Fe Fire Protection                    |                      |
| San Marcos Unified                     |                      | SANDAG   |                      |
| San Pasqual Union                      |                      | San Diego Rural Fire Protection                    |                      |
| San Ysidro                             |                      | San Dieguito River                                 |                      |
| Santee                                 |                      | San Marcos Fire Protection                         |                      |
| Solana Beach                           |                      | San Miguel Fire Protection                         |                      |
| South Bay Union                        |                      | San Ysidro Sanitation                              |                      |
| Spencer Valley                         |                      | SDC Regional Airport Authority                     |                      |
| Sweetwater Union High                  |                      | Spring Valley/Casa de Oro                          |                      |
| Vallecitos                             |                      | Upper San Luis Rey Resource Conservation           |                      |
| Valley Center Union                    |                      | Valley Center Fire Protection                      |                      |
| Vista Unified                          |                      | Valley Center Cemetery                             |                      |
| Warner Unified                         |                      | Valley Center Cemetery Perpetual                   |                      |
| Education - Cemetery Districts         |                      | Vista Fire Protection                              |                      |
| Department of Education                |                      | Total for Retirement, Cities, Independent Agencies | 3.95%                |
| Education - Debt Service               |                      |  |                      |
| Education - Building Funds             |                      |  |                      |
| Total for Schools                      | 47.72%               |  |                      |
| Community Colleges                     |                      |  |                      |
| San Diego                              |                      |  |                      |
| Grossmont/Cuyamaca                     |                      |  |                      |
| MiraCosta                              |                      |  |                      |
| Palomar                                |                      |  |                      |
| Southwestern                           |                      |  |                      |
| Total for Community Colleges           | 7.46%                |  |                      |
|  |                      | TOTAL  | 100.00%              |

**San Diego County Pool Participants  
Total Portfolio - \$3.8 Billion  
As of June 30, 2003**



## Leverage Exposure

The Pooled Money Fund is allowed to have leverage exposure through the use of Reverse Repurchase Agreements (RRP) and Securities Lending. The maximum exposure is 20% of the Portfolio value. There were no RRP's or Securities Lending transactions during fiscal year 2003.

The San Diego County Portfolio Statistics table gives a detailed listing of the Portfolio diversification, yields by type of securities, and weighted average maturities as of June 30, 2003.

San Diego County Portfolio Statistics  
As of June 30, 2003

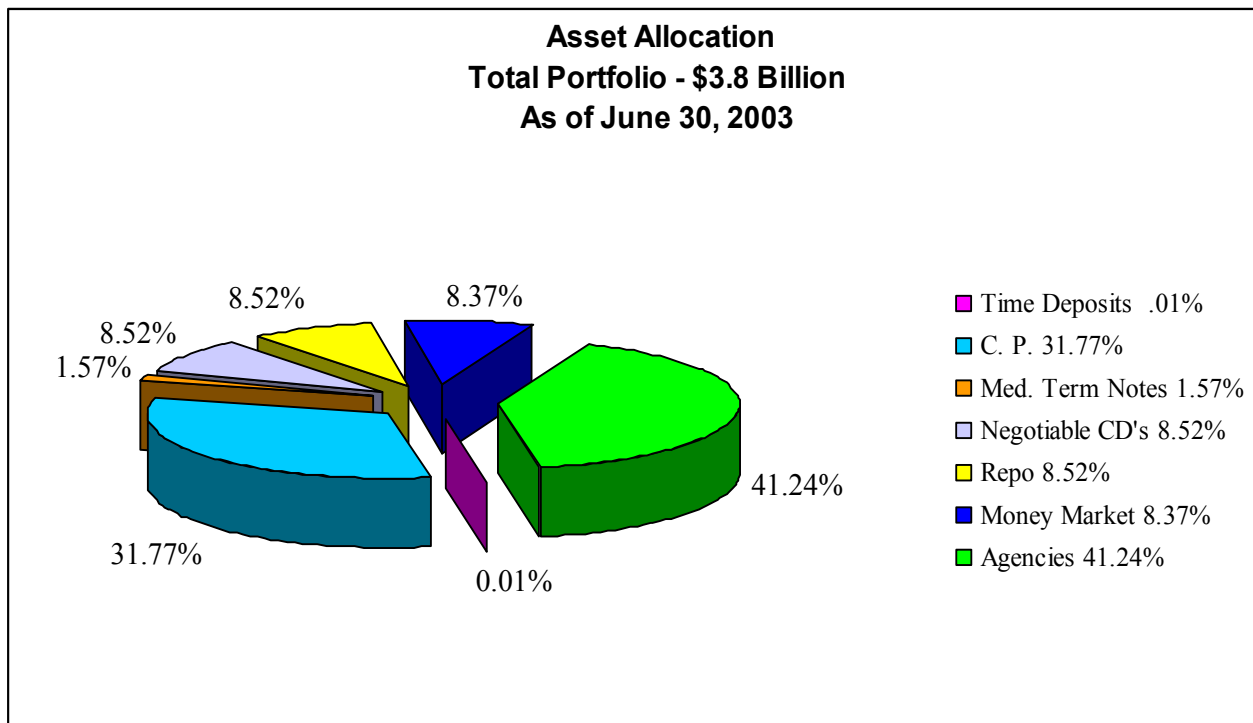
|   | Percent Of<br>Portfolio | Book Value              | Market<br>Price | Accrued<br>Interest  | Market Value            | Unrealized<br>Gain/(Loss) | Yield To<br>Maturity | Weighted<br>Average<br>Days To<br>Maturity |
|---|-------------------------|-------------------------|-----------------|----------------------|-------------------------|---------------------------|----------------------|--|
| Federal Farm Credit Bank Notes          | 0.66%                   | \$ 25,000,000           | 100.84%         | \$ 95,382            | \$ 25,209,460           | \$ 209,460                | 2.05%                | 847  |
| Federal Home Loan Bank Notes            | 8.46%                   | 322,315,312             | 100.62%         | 1,077,433            | 324,009,058             | 1,693,746                 | 1.94%                | 642  |
| Federal Nat'l Mortgage Assoc. Notes     | 17.18%                  | 653,580,808             | 101.06%         | 5,315,154            | 657,428,941             | 3,848,133                 | 2.64%                | 867  |
| Federal Home Loan Mortg. Corp. Notes    | 13.85%                  | 526,544,275             | 100.66%         | 3,899,023            | 530,000,881             | 3,456,606                 | 2.51%                | 1,037                                      |
| Student Loan Marketing Assoc. Notes     | 1.31%                   | 50,000,000              | 100.09%         | 194,792              | 50,043,800              | 43,800                    | 2.13%                | 665  |
| Corporate Medium Term Notes             | 1.60%                   | 61,323,813              | 102.17%         | 1,148,226            | 61,299,885              | (23,928)                  | 1.19%                | 217  |
| Money Market Funds                      | 8.34%                   | 319,100,000             | 100.00%         | 255,554              | 319,100,000             | -                         | 1.09%                | 1  |
| Repurchase Agreements                   | 8.49%                   | 325,000,000             | 100.00%         | 12,767               | 325,000,000             | -                         | 1.41%                | 1  |
| Negotiable Certificates Of Deposit      | 8.50%                   | 324,999,855             | 100.08%         | 3,318,299            | 325,274,900             | 275,045                   | 1.68%                | 236  |
| Commercial Paper                        | 31.60%                  | 1,209,743,673           | 99.85%          | -                    | 1,209,651,596           | (92,077)                  | 1.16%                | 46   |
| Collateralized Certificates of Deposit* | 0.01%                   | 392,000                 | 100.00%         | 5,822                | 392,000                 | -                         | 2.21%                | 51   |
| <b>Totals For June 2003</b>             | <b>100.00%</b>          | <b>\$ 3,817,999,735</b> | <b>100.36%</b>  | <b>\$ 15,322,452</b> | <b>\$ 3,827,410,521</b> | <b>\$ 9,410,785</b>       | <b>1.74%</b>         | <b>372</b>                                 |

\*Collateralized CDs classified as Cash Deposits in Statement of Net Assets

A complete list of the portfolio's holdings is available on the internet at [www.sdtreastax.com](http://www.sdtreastax.com).



The apportionment rate during fiscal year 2002/2003 was 2.32%. The preceding 3 years annualized was 5.47% and the preceding 5 years annualized was 4.94%.



**Schedule of Top Ten Fixed-Income Securities**  
**As of June 30, 2003**

| TOP TEN FIXED-INCOME SECURITIES       |           |               |               |                |
|---------------------------------------|-----------|---------------|---------------|----------------|
| Security Name                         | Cusip No. | Par           | Fair Value    | % Of Portfolio |
| Morgan Stanley Repurchase Agreement   | N/A       | \$225,000,000 | \$225,000,000 | 5.88%          |
| Federated MM                          | NA        | 210,000,000   | 210,000,000   | 5.49%          |
| Blackrock MM                          | NA        | 109,000,000   | 109,000,000   | 2.85%          |
| Federal National Mortgage Association | 31359MRA3 | 100,000,000   | 100,837,380   | 2.63%          |
| Deutsche Bank Repurchase Agreement    | NA        | 100,000,000   | 100,000,000   | 2.61%          |
| Federal Home Loan Mortgage Corp.      | 3128X0554 | 75,000,000    | 75,226,823    | 1.97%          |
| Federal National Mortgage Association | 31359MKR3 | 71,355,000    | 71,701,414    | 1.87%          |
| Moat Funding CP                       | 60687MVL6 | 68,650,000    | 68,549,290    | 1.79%          |
| Concord Minutemen CP                  | 20631UVR6 | 68,067,000    | 67,956,731    | 1.78%          |
| Federal Home Loan Mortgage Corp.      | 31359MEX7 | 50,000,000    | 52,981,180    | 1.38%          |

## STATISTICAL SECTION

**SAN DIEGO COUNTY INVESTMENT POOL**  
**SCHEDULE OF EARNINGS, RETURNS, FEES, APPORTIONMENT RATE**  
**AVERAGE DAILY BALANCES (ADB) AND RATIO OF FEES/ADB**

| Year  | Earnings      | Total Returns | Amount Recovered | Net Earnings  | Fees         | Net Distributed | Apport. Rate | Ave. Daily Balances (In Millions) | Ratio of Fees/ADB |
|-------|---------------|---------------|------------------|---------------|--------------|-----------------|--------------|-----------------------------------|-------------------|
| 02/03 | \$ 79,485,631 | 2.38%         |                  | \$ 79,485,631 | \$ 3,930,420 | \$ 75,555,211   | 2.32%        | \$ 3,430.2                        | 0.11%             |
| 01/02 | 108,854,683   | 3.83%         |                  | 108,854,683   | 3,897,890    | 104,956,793     | 3.84%        | 2,949.0                           | 0.13%             |
| 00/01 | 152,971,324   | 6.37%         |                  | 152,971,324   | 3,743,964    | 149,227,360     | 6.50%        | 2,455.3                           | 0.15%             |
| 99/00 | 112,764,518   | 5.68%         |                  | 112,764,518   | 2,454,710    | 110,309,808     | 5.80%        | 2,002.9                           | 0.12%             |
| 98/99 | 73,660,290    | 4.25%         | \$ 462,010       | 73,198,280    | 2,238,038    | 70,960,242      | 4.27%        | 1,765.6                           | 0.13%             |
| 97/98 | 69,467,385    | 3.88%         | 850,000          | 68,617,385    | 2,925,421    | 65,691,964      | 3.82%        | 1,821.4                           | 0.16%             |
| 96/97 | 72,903,124    | 3.86%         | 1,200,000        | 71,703,124    | 2,857,237    | 68,845,887      | 3.77%        | 1,911.8                           | 0.15%             |
| 95/96 | 85,337,127    | 4.10%         |                  |               | 2,309,845    | 83,027,282      | 3.99%        | 2,074.5                           | 0.11%             |
| 94/95 | 150,945,338   | 4.76%         |                  |               | 1,876,892    | 149,068,446     | 4.73%        | 3,236.6                           | 0.06%             |
| 93/94 | 219,305,767   | 5.93%         |                  |               | 2,130,708    | 217,175,059     | 6.09%        | 3,783.1                           | 0.06%             |
| 92/93 | 223,563,651   | 7.48%         |                  |               | 1,771,258    | 221,792,393     | 7.58%        | 3,109.4                           | 0.06%             |
| 91/92 | 212,666,105   | 8.62%         |                  |               | 1,807,322    | 210,858,783     | 8.80%        | 2,544.3                           | 0.07%             |

Note: \$2,512,010 was withheld from actual apportionments during the fiscal years 96/97, 97/98 and 98/99 as a result of excess apportionments that occurred in prior years. All excess amounts distributed have been fully recovered.

**SAN DIEGO COUNTY INVESTMENT POOL**  
**Schedule of Professional Fees**  
**(Administrative Costs)**

| FOR THE FISCAL YEARS ENDED:          | 06/30/03            | 06/30/02            | 06/30/01            | 06/30/00            | 06/30/99            |
|--------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| <b>PROFESSIONAL FEES:</b>            |                     |                     |                     |                     |                     |
| BANK OF AMERICA/WELLS/UB-BANKING     | \$ 807,794          | \$ 709,229          | \$ 368,699          | \$ 377,776          | \$ 520,655          |
| STATE STREET BANK-CUSTODIAL FEES     | 88,974              | 86,196              | 64,030              | 41,186              | 40,090              |
| <b>COMPUTER-RELATED EXPENSES:</b>    |                     |                     |                     |                     |                     |
| BLOOMBERG                            | 52,745              | 50,490              | 49,093              | 41,280              | 40,539              |
| SUNGARD FINANCIAL SYSTEMS            | 31,059              | 30,600              | 34,296              | 30,586              | 35,295              |
| SOFTWARE SERVICES                    | 40,500              | 40,500              | 40,500              | 25,500              | 25,500              |
| WASSAU FINANCIAL SYSTEM              |                     | 46,640              | 115,525             |                     |                     |
| OTG SOFTWARE INC                     | 77,490              | 63,000              |                     |                     |                     |
|                                      |                     |                     |                     |                     |                     |
| <b>TOTAL PROFESSIONAL FEES</b>       | <b>1,098,562</b>    | <b>1,026,655</b>    | <b>672,143</b>      | <b>516,328</b>      | <b>662,079</b>      |
|                                      |                     |                     |                     |                     |                     |
| <b>OTHER COSTS:</b>                  |                     |                     |                     |                     |                     |
| FIXED ASSET - 7.5 MPE/IMAGING EQUIPT | 57,566              | 315,455             | 752,365             |                     | -                   |
| SALARIES & BENEFITS                  | 1,540,932           | 1,448,103           | 1,223,884           | 1,057,848           | 858,363             |
| SERVICES & SUPPLIES                  | 402,262             | 449,534             | 364,837             | 287,039             | 243,307             |
| DEPARTMENT OVERHEAD                  | 242,346             | 291,623             | 274,007             | 262,663             | 272,757             |
| EXTERNAL OVERHEAD                    | 438,752             | 226,520             | 276,728             | 205,832             | 105,536             |
| <b>SUB-TOTAL</b>                     | <b>2,681,858</b>    | <b>2,731,235</b>    | <b>2,891,821</b>    | <b>1,813,382</b>    | <b>1,479,963</b>    |
|                                      |                     |                     |                     |                     |                     |
| AUDITORS' COST                       | 150,000             | 140,000             | 180,000             | 125,000             | 95,996              |
|                                      |                     |                     |                     |                     |                     |
| <b>TOTAL COSTS</b>                   | <b>\$ 3,930,420</b> | <b>\$ 3,897,890</b> | <b>\$ 3,743,964</b> | <b>\$ 2,454,710</b> | <b>\$ 2,238,038</b> |

**SAN DIEGO COUNTY INVESTMENT POOL**  
**ASSET ALLOCATION**  
**MARKET VALUE**  
(Dollar amount in thousands)

| INVESTMENT TYPE             | 6/30/03            |               | 6/30/02             |               | 06/30/01           |               | 06/30/00            |               | 06/30/99            |               |
|-----------------------------|--------------------|---------------|---------------------|---------------|--------------------|---------------|---------------------|---------------|---------------------|---------------|
|                             | Amount             | %             | Amount              | %             | Amount             | %             | Amount              | %             | Amount              | %             |
| Government Agencies         | \$ 1,586,692       | 41.5%         | \$ 862,361          | 27.0%         | \$ 1,278,488       | 46.7%         | \$ 793,040          | 35.1%         | \$ 625,905          | 33.9%         |
| Corporate Med.Term Notes    | 61,300             | 1.6%          | -                   | 0.0%          | 88,101             | 3.2%          | 117,900             | 5.2%          | 174,277             | 9.4%          |
| Commercial Paper            | 1,209,651          | 31.6%         | 1,080,636           | 33.8%         | 729,194            | 26.6%         | 629,437             | 27.8%         | 263,913             | 14.3%         |
| Repurchase Agreements       | 325,000            | 8.5%          | 450,000             | 14.1%         | 230,000            | 8.4%          | 330,000             | 14.6%         | 172,000             | 9.3%          |
| Negotiable Cert. of Deposit | 325,275            | 8.5%          | 540,965             | 16.9%         | 145,939            | 5.3%          | 364,026             | 16.1%         | 592,991             | 32.1%         |
| Open-end Money Market Funds | 319,100            | 8.3%          | 260,000             | 8.2%          | 266,000            | 9.8%          | 26,300              | 1.2%          | 17,500              | 1.0%          |
| <b>TOTAL</b>                | <b>\$3,827,018</b> | <b>100.0%</b> | <b>\$ 3,193,962</b> | <b>100.0%</b> | <b>\$2,737,722</b> | <b>100.0%</b> | <b>\$ 2,260,703</b> | <b>100.0%</b> | <b>\$ 1,846,586</b> | <b>100.0%</b> |

**SAN DIEGO COUNTY INVESTMENT POOL PARTICIPANTS**

| PARTICIPANTS                   | 06/30/03            |               | 06/30/02            |               | 06/30/01            |               | 06/30/00            |               | 06/30/99            |               |
|--------------------------------|---------------------|---------------|---------------------|---------------|---------------------|---------------|---------------------|---------------|---------------------|---------------|
|                                | Amount              | %             | Amount              | %             | Amount              | %             | Amount              | %             | Amount              | %             |
| County                         | \$ 1,086,873        | 28.4%         | \$ 1,012,486        | 31.7%         | \$ 1,026,646        | 37.5%         | \$ 877,153          | 38.8%         | \$ 834,657          | 45.2%         |
| Undistributed Taxes/Int./Other | 486,031             | 12.4%         | 443,961             | 13.9%         | 418,871             | 15.3%         | 302,934             | 13.4%         | 83                  | 4.5%          |
| K-12 Schools                   | 1,825,488           | 47.7%         | 1,520,326           | 47.6%         | 1,092,351           | 39.9%         | 938,192             | 41.5%         | 787                 | 42.6%         |
| Community Colleges             | 275,545             | 7.5%          | 140,534             | 4.4%          | 150,575             | 5.5%          | 101,732             | 4.5%          | 120                 | 6.5%          |
| Voluntary Deposits             | 153,081             | 4.0%          | 76,655              | 2.4%          | 49,279              | 1.8%          | 40,692              | 1.8%          | 22                  | 1.2%          |
| <b>TOTAL</b>                   | <b>\$ 3,827,018</b> | <b>100.0%</b> | <b>\$ 3,193,962</b> | <b>100.0%</b> | <b>\$ 2,737,722</b> | <b>100.0%</b> | <b>\$ 2,260,703</b> | <b>100.0%</b> | <b>\$ 1,846,586</b> | <b>100.0%</b> |